Humpty's™

Restaurants International Inc.

...Solid & Growing
1998 Annual Report

Corporate Profile

Humpty's Restaurants International Inc. (HMP/ASE) is a Calgary-based operator and franchisor of proprietary full-service family restaurant brands in the midst of an accelerated but managed stage of long-term growth. The company's 5-year objective is to become Canada's leading mid-scale family restaurant brand owner and franchisor.

Share capital currently stands at 15,044,785 undiluted and 15,894,785 fully diluted common shares, two-thirds of which are held by founders, management and franchisees. HMP shares are traded on the Alberta Stock Exchange, however a Toronto Stock Exchange listing will be sought in fiscal 1999.

The company's current proprietary brand portfolio consists of the following:

Humpty's Family Restaurants – a mostly 24 hour, mid-scale full-service family-style restaurant concept emphasizing value and convenience and featuring an award-winning all-day menu that includes an extensive and unique array of lunch, dinner and breakfast-related items. The brand currently consists of fifty-three (4 corporate, 49 franchised) operating units located throughout Western Canada, with eleven (1 corporate, 10 franchised) new units projected for fiscal 1999 including three units in Ontario.

Rockin' Robin's Diner – a mid-scale, full-service limited hour 50's & 60's diner concept emphasizing an authentic "diner" décor and featuring authentic "diner" menu items consisting of traditional comfort foods only. One corporate prototype currently operates in Calgary, Alberta, with one additional corporate outlet projected for fiscal 1999 on company-owned lands located on "Gasoline Alley" within the County of Red Deer, Alberta.

...Solid & Growing

7-year summary	1998	1997	1996	1995	1994	1993	1992
	(Dollars rounded to thousands, except per share data and number of systemwide restaurants)						
Systemwide sales	**$47,700**	41,700	34,550	26,950	23,300	20,750	18,650
Systemwide restaurants at year end *	**51**	44	40	35	32	30	29
Average sales per systemwide restaurants	**$1,000**	950	875	775	725	700	650
Franchise operations							
Franchise revenue	**$3,275**	2,675	2,200	1,775	1,300	1,025	950
General and administrative expenses before interest and amortization	**$2,300**	1,750	1,500	1,125	825	800	750
Percentage margin on franchise operations before interest and amortization	**29.8%**	34.6%	31.8%	36.6%	36.5%	22.0%	21.1%
Restaurant operations							
Revenue	**$3,900**	3,375	2,250	1,325	1,225	1,250	1,350
Cost of sales	**$1,300**	1,100	725	425	400	425	425
Operating expenses	**$2,050**	1,650	1,150	675	500	600	675
Percentage margin on restaurant operations before interest and amortization	**14.1%**	18.5%	16.7%	17.0%	26.5%	18.0%	18.5%
Overall corporate revenue	**7,175**	6,050	4,450	3,100	2,525	2,275	2,300
EBITA	**1,550**	1,550	1,050	800	575	150	(900)
Net income	**675**	650	575	475	(225)	(100)	(1,200)
Cash provided by operations	**($100)**	1,150	800	300	(225)	125	100
Finanancial position at year end							
Assets	**$4,150**	3,800	2,975	2,275	2,250	2,325	2,625
Liabilities	**$2,050**	2,375	2,200	1,975	2,275	2,650	2,850
Shareholders' equity	**$2,100**	1,425	750	300	(50)	(325)	(225)
Key Ratios							
Working capital	**2.6:1**	1.4:1	1.1:1	1.6:1	0.6:1	0.3:1	0.2:1
Debt to equity	**1.0:1**	1.7:1	2.9:1	6.6:1	-	-	-
Per common share (basic)							
Net income (loss)	**$0.046**	0	0.038	0.03	0.015	(0.004)	(0.10)
Market price at year end	**$0.46**	0	0.34	0.10	0.14	0.14	0.14

* Includes all locations that were open for the entire year.

President's Message to Shareholder's

Don and Jan Koenig – Founders of Humpty's Restaurants International Inc.

1998 Overview

The unit total of our flagship *Humpty's Family Restaurant* brand increased from 44 to 51 locations during the year as system-wide sales approached $48 million. The lower mainland and Vancouver Island regions of BC were successfully penetrated as we added five new locations to those markets allowing us to concentrate on the Ontario market for the coming year. To that end, an eastern regional office/corporate prototype and training location will open in Vaughan, Ontario later this summer to spearhead Eastern Canada and possibly U.S. expansion. Successful registration of our "Humpty's Family Restaurant" trademarks now leaves site selection as our only barrier to establishing a beachhead in the U.S. market – once it becomes prudent to do so. Our new *Rockin' Robin's Diner* concept was launched successfully in November, further enhancing our ability to expand by doubling our saturation capacity within new and current markets – once the concept is fully developed for franchising. Acquisitions will be pursued more aggressively this coming year due to the increased leverage and flexibility our balance sheet provides to finance suitable transactions. Overall, 1998 was a rewarding year ending with the company well positioned to accelerate the considerable growth we have realized over the past six years.

Notwithstanding our success, 1998 did provide its share of disappointments. Despite significantly higher corporate revenue, net income was relatively flat due to higher than expected construction costs in BC; costs associated with new concept development; and increased spending on new promotional campaigns and TV advertising. On closer inspection however, those costs were indeed investments made to strengthen our competitive position within various markets. The seven new unit total for the year was also disappointing given that eight were projected and 12 scheduled for 1998. Base-building construction delays originating with BC landlords, and the use of Alberta-based contractors to oversee unit construction, pushed back our opening schedule to where five scheduled units are to be opened in 1999 instead. To ensure similar delays do not affect our capacity to open units on time and within budget, we've added a new project manager to our head office to oversee all aspects of unit design, development and construction.

The Restaurant Franchising Industry

For years, some contemporary industry observers have suggested that the restaurant franchising business had less to do with the provision of effective foodservice concepts and systems, than it did in entertaining patrons. Many argued that the competition was not the chain down the street, but rather the likes of Walt Disney. As the novelty of several "eat-ertainment" concepts starts to fade; industry analysts, investors and financiers are refocusing on those attributes that make restaurant franchising companies successful:

- Stable concepts unaffected by short-term industry or economic trends,
- A demonstrable commitment to providing customers – franchisees - value,
- Effective operating and support systems strictly enforced to foster franchisee success,
- Prudent fiscal management, and
- Long-term real growth undertaken at a manageable and sustainable pace.

Our focus on those fundamental attributes is what makes us successful. We are not in the entertainment business. We provide restaurant concepts and operating systems our customers – the franchisees – use to profitably deliver

generous portions of quality food at a reasonable price to patrons within a friendly, efficient service environment. It is a formula that works and one that will continue to solidify our strategic position within the full-service family restaurant segment of Canada's foodservices industry.

Another important development within the restaurant industry in general is consolidation. Thin margins, increased competition and saturated markets contribute to the consolidation of any industry. Within the full-service family segment in particular, the need to consolidate is being driven by various ownership, succession and capitalization pressures affecting the growth of several successful but mature Canadian brands. We feel those pressures, once considered by management and principals of affected companies, will present some very interesting acquisition opportunities over the next several years.

Our Strategic Position within the "Industry"

Overall, Humpty's is well positioned to benefit from changes currently affecting the restaurant franchising industry. Our concepts are stable because we serve an inherently stable consumer market - middle income families with children within outer-metro and small urban market centres, and business/recreational road travelers frequenting provincial/inter-provincial highway market centres. Our commitment to our customers – our franchisees - is evidenced by the strong relationship we share with them and the steadily increasing value of their investments in our system. Also, our continually improving balance sheet provides us the leverage and flexibility we need to capitalize on opportunities when they are presented to us. By continuing to leverage the strategic advantages we currently enjoy, we will continue to:

- Accelerate growth as more qualified franchisees are attracted to our system,
- Realize greater management and operating efficiencies due to the benefits of critical mass, and
- Increase the value of our stock as the investment community assigns growth multiples to our valuations going forward.

Outlook on Growth

Growth will occur within three primary areas of our business. First, we will continue to award single-unit franchises to qualified candidates within new and existing markets. Twelve new Humpty's Family Restaurants are confirmed for 1999 including two franchises and one corporate location to be opened in Ontario. Based on our research, we should realize similar success in the Ontario market to that we enjoy in Western Canada. Our investment in Vaughan, and our trademark registration in the United States, should spark considerable interest in single and multi-unit franchises within various other Eastern Canada and U.S. markets.

Second, our new "Rockin' Robin's Diner" concept will fuel further expansion by providing a companion concept to our flagship Humpty's Family Restaurants brand. Whereas, Humpty's targets families with smaller children, Rockin' Robin's will target the parents of those children and their teenage siblings. The objective is to extend - not change - the demographic profile our core competencies, management expertise and systems currently serve with the Humpty's Family Restaurant brand. The effect will be to broaden our consumer base by doubling our saturation limits within new and existing markets, by offering consumers two distinct but complimentary proprietary brands. One (1) corporate prototype is now open in Calgary. A second corporate location will open in the late summer of 1999 on 3.34 acres of land purchased on "Gasoline Alley", alongside the #2 Alberta Provincial Highway between Calgary and Edmonton.

Thirdly, strategic acquisitions will also fuel growth. As several privately held family restaurant chains consider ownership and succession-related issues affecting their

growth, principals of those chains will inevitably seek to exit their companies in order to retire and/or crystallize returns on their investments. Being Canada's only publicly traded franchising company to focus on the full-service family segment, Humpty's is in a unique position to provide the principals of such companies the opportunity and means to affect an effective, efficient exit. Several targets are currently being assessed to undertake at least one significant transaction during the fiscal 1999 reporting period.

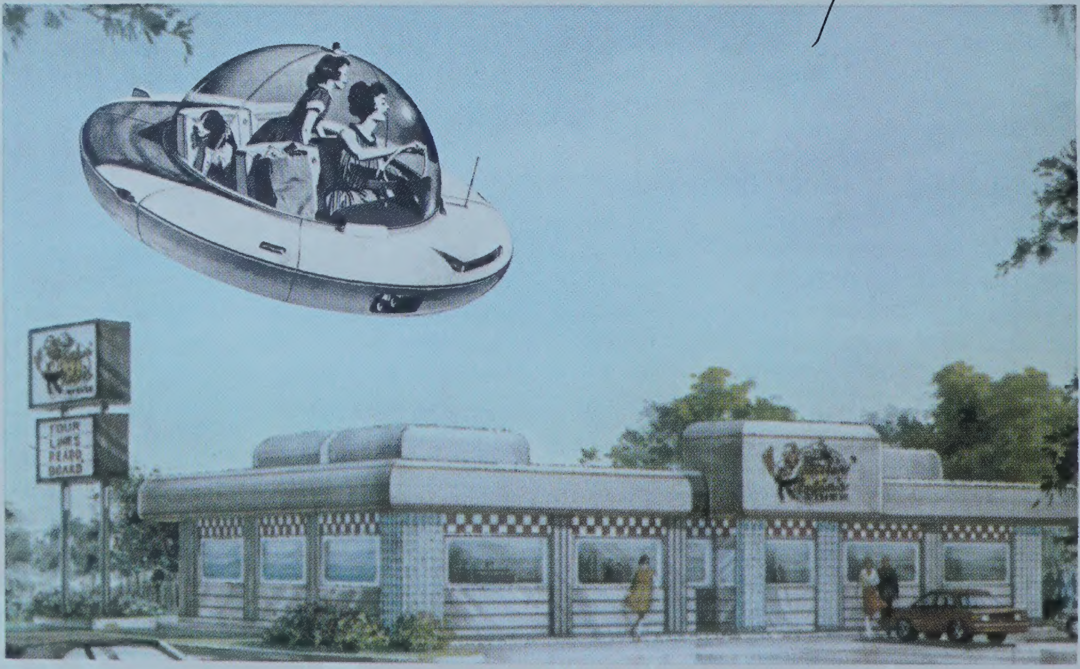
Given the relatively aggressive expansion agenda we are currently undertaking, strengthening our management and assessing our human resources will be a priority in 1999 to ensure that our agenda is executed in an effective, efficient and accretive manner.

A Very Distinct Honor

Humpty's has always prided itself as a responsible corporate citizen. Therefore, it was with immense pride that we accepted the Canadian Franchise Association's prestigious "Presidents Award". The honor was bestowed upon us for our unique efforts to enhance the role of the association, and for participation in various *Alcohol & Drug Abuse Prevention*, *Hurricane Mitch Relief* and other community service programs.

In closing, we are pleased with our progress in 1998 and are confident that our financial strength, commitment to franchisees, and prudent capital management will enhance shareholder value through 1999.

Don Koenig
President and Chief Executive Officer



Rockin Robin's Diner

HUMPTY'S RESTAURANTS INTERNATIONAL INC. ANNUAL REPORT

Management's Discussion and Analysis

The following discussion of financial position and operating results should be read in conjunction with the audited financial statements and related notes attached hereto.

Results of Operations

Net income in 1998 was $675,000 compared to $650,000 in 1997. The flat earnings performance can be attributed to:

- $125,000 in higher than expected construction costs to establish five (5) new locations in BC. The increase in costs were largely due to our use of an Alberta rather than BC-based contractor which resulted in construction costs being underestimated for that market. The difference was consequently borne by the company. BC-based contractors have since been used to manage construction within that market.
- $58,000 in development costs associated with the "Wok Tu Yu" concept and prototype location. Although the prototype location was moderately successful, sales volumes did not indicate the concept would be appropriate for franchising. All related assets of the "Wok Tu Yu" concept and prototype location were sold after year-end.
- $70,000 in development costs associated with the "Rockin' Robin's Diner" concept. The prototype location has been very well received since opening in November. A second corporate location will open in late summer 1999.
- $200,000 in increased advertising and promotional campaign costs. The increase was due to our more extensive use of TV advertising and several innovative promotional campaigns to increase brand awareness. We expect advertising and promotion-related spending to remain within the $900,000 budget established for fiscal 1999.

Systemwide Sales

Systemwide sales in 1998 were $47.7 million versus $41.7 million in 1997. The $6 million or 14.4% increase can be attributed to two (2) factors. First, eight (8) new locations contributed $3.2 million in new systemwide sales and second, same store sales increased 3.4% in fiscal 1998.

New Locations

Seven (7) new Humpty's Family Restaurants franchises were awarded in 1998 bringing the brand's unit total to fifty-one (51) restaurants. In addition, we opened our first Rockin' Robin's Diner as a corporate location. The year's new locations and their anticipated annual sales volumes are:

February	Chilliwack, BC	$1,000,000
February	Edmonton, AB	$1,000,000
July	Richmond, BC	$1,000,000
September	Abbotsford, BC	$1,100,000
September	Surrey, BC	$800,000
September	Nanaimo, BC	$700,000
October	Whitecourt, AB	$800,000
November (Rockin' Robin's)	Calgary, AB	$750,000

Royalty Revenue

Royalty revenue was $1,900,000 in 1998 representing a $275,000 or 17% increase over last year. Average sales per location increased to $1,000,000 in 1998 compared with $950,000 in 1997 for stores open at least one full year. The seven (7) new franchises contributed $169,000 in additional royalty revenue with the remainder of the year's royalty increase coming from increased same store sales.

Corporate Locations

Four (4) Humpty's Family Restaurant locations and one (1) prototype Rockin' Robin's Diner location (added in November) were owned and operated by the company at year-end. Restaurant sales from corporate locations increased $525,000 in 1998 to total $3.91 million - up from last year's $3.38 million. One (1) corporate Humpty's Family Restaurant location was sold after fiscal year-end.

Cost of sales as a percentage of restaurant sales remained constant at 33% in 1998 compared to 32.8% in 1997. Operating costs as a percentage of restaurant sales were 52.4% compared to 49.1% in 1997. The increase in operating costs was due primarily to development costs relating to the Rockin' Robin's Diner concept and start up test location.

The company will continue to operate corporate locations because they allow us to monitor consumer trends and competitors, refine our operating model and test products and menus within our markets.

General and Administrative Expenses

General and administrative expenses as a percentage of franchise revenue were 73.5% in 1998 compared to 71.3% in 1997. Most of the increase is attributed to costs associated with increased advertising and promotion, construction in B.C. and development of the Wok Tu Yu concept – as discussed in the results of operations section of this management's discussion and analysis.

Liquidity and Capital Resources

Our financial position continues to strengthen.

	1998	1997
Working capital ratio	2.6:1	1.4:1
Debt to equity ratio	1.0:1	1.7:1

In 1998, we focused on improving our financial position by reducing payables, keeping long-term debt constant and maintaining profitability. That emphasis on strengthening our balance sheet will facilitate our expansion plans for the next several years. Subsequent to year end, we purchased land for about $1.0 million to host our corporate Rockin' Robin's Diner location in Red Deer. We assumed $750,000 of related debt to finance the purchase.

Cash Flow

Our cash flow from operations decreased from $1,150,000 in 1997 to ($100,000) in 1998. The cash was used to strengthen our working capital position by reducing payables and increasing current assets. A strong working capital position is important to provide the flexibility we need to place deposits on new locations as we expand. Cash from operations prior to changes in working capital was $875,000 in 1998 versus $825,000 in 1997.

1999 Expansion

We expect to open ten (10) additional Humpty's franchise locations, one (1) corporate Humpty's location in Vaughan, Ontario and one (1) corporate Rockin' Robin's location in Red Deer, Alberta in 1999. Each should generate annual sales of between $1.0 million and $1.5 million. Of the ten (10) Humpty's franchise locations to open in 1999, six (6) will be in B.C., one (1) each will be in Alberta and Saskatchewan and two (2) will be in Ontario. Our corporate Rockin' Robin's Diner location in Red Deer will also include an attached gas bar/convenience store to generate approximately $4.0 million in combined annual revenue.

In addition to the continued growth of the Humpty's and Rockin' Robin's brands, we are actively pursuing strategic acquisitions.

Risks and Uncertainties

Acquisition Risk: We believe we have the strength to manage our current agenda of steady, sustained growth. However, there are risks associated with the acquisition of other restaurant chains. To mitigate that risk, we are being very careful to ensure that any acquisition target will be complimentary to our current operating style and target market. To that end, only full-service family chains and carefully selected quick-serve franchisors will be targeted for acquisition.

Expansion Risk: The restaurant and franchise industry is very competitive. We currently have a waiting list of qualified franchisees however; quality locations are at a premium. The availability of appropriate locations can slow our aggressive growth plans.

Ontario Risk: Expansion into Ontario presents certain risks associated with that geographic market's acceptance of our Humpty's Family Restaurants brand. Based on our extensive research of the market and our stringent site selection criteria, we do not anticipate any undue risk associated with entering the Ontario market place.

Y2K Risk: For the past year we have worked to ensure that the many business and accounting systems we rely on will not be affected by date recognition-related difficulties arising from the Year 2000. We expect to complete our assessment of the potential impact that risk will have on our key systems by the summer of 1999. Our assessment includes discussions with major suppliers and our franchisees to determine the extent to which they are Year 2000 compliant. To date our review indicates that our operations will not be significantly affected. However, we do not believe we can be certain that all aspects of the Year 2000 issue affecting Humpty's, our franchisees, suppliers or other third parties will be fully resolved by year-end.

Humpty's Restaurants International Inc.

Financial Statements
December 31, 1998

Auditors' Report

To the Shareholders of Humpty's Restaurants International Inc.:

We have audited the balance sheet of Humpty's Restaurants International Inc. as at December 31, 1998 and the statements of income and retained earnings and changes in cash position for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles.

Kenway Mack Slusarchuk Stewart

Calgary, Alberta
March 4, 1999

Humpty's Restaurants International Inc.

Balance Sheet

December 31, 1998

Assets

	1998	1997
Current assets:		
Cash	$ 233,310	$ 654,539
Accounts receivable	591,886	356,118
Inventory	243,011	102,038
Income taxes recoverable	8,072	-
Prepaid expenses and deposits	310,989	174,791
Notes receivable, current portion (Note 2)	74,589	76,152
	1,461,857	1,363,638
Notes receivable, net of current portion (Note 2)	91,824	72,965
Capital assets (Note 3):		
Cost	3,530,299	3,067,993
Less - Accumulated amortization	919,853	709,399
	2,610,446	2,358,594
	$ 4,164,127	$ 3,795,197

Liabilities

	1998	1997
Current liabilities:		
Accounts payable	$ 388,620	$ 397,531
Income taxes payable	-	402,023
Long-term debt, current portion (Note 4)	188,109	155,854
	576,729	955,408
Long-term debt, net of current portion (Note 4)	1,488,242	1,425,209
	2,064,971	2,380,617

Shareholders' Equity

	1998	1997
Share capital (Note 5)	1,104,806	1,104,806
Retained earnings	994,350	309,774
	2,099,156	1,414,580
	$ 4,164,127	$ 3,795,197

Approved by the Board:

_______________ Director.

_______________ Director.

Humpty's Restaurants International Inc.

Statement of Income and Retained Earnings

For the Year Ended December 31, 1998

	1998	1997
Franchise revenue:		
Royalties	$ 1,912,715	$ 1,624,378
Advertising participation fees	823,565	680,341
Rebates and other	389,505	291,033
Franchise sales	160,000	100,000
	3,285,785	2,695,752
General and administrative expenses:		
Advertising and promotion	1,097,426	861,469
Salaries and employee benefits	687,458	528,716
Office and miscellaneous	159,002	148,080
New franchise construction	125,063	22,399
Professional fees	122,497	95,446
Interest on long-term debt	121,793	113,829
Lease settlements	64,370	40,920
Development concept	57,722	-
Amortization	52,261	50,622
Bad debts	-	59,699
	2,487,592	1,921,180
Income before the following	798,193	774,572
Restaurant operations:		
Sales	3,917,447	3,381,579
Cost of sales	1,294,160	1,110,371
Gross margin	2,623,287	2,271,208
Operating costs	2,052,074	1,660,878
Amortization	149,547	123,703
Interest on long-term debt	23,283	92,415
	398,383	394,212
Income before income taxes	1,196,576	1,168,784
Income taxes	512,000	509,000
Net income	684,576	659,784
Retained earnings (deficit), beginning of year	309,774	(350,010)
Retained earnings, end of year	$ 994,350	$ 309,774

Humpty's Restaurants International Inc.

Statement of Changes in Cash Position

For the Year Ended December 31, 1998

	1998	1997
Operating activities:		
Net income	$ 684,576	$ 659,784
Item not involving cash		
Amortization	201,808	174,325
	886,384	834,109
Changes in non-cash working capital balances	(931,945)	309,265
	(45,561)	1,143,374
Financing activities:		
Proceeds from long-term debt	250,000	185,000
Repayments of long-term debt	(154,712)	(510,601)
	95,288	(325,601)
Investing activities:		
Purchases of capital assets	(453,660)	(480,570)
Advances on notes receivable	(120,314)	(84,000)
Repayments of notes receivable	103,018	101,429
	(470,956)	(463,141)
Increase (decrease) in cash	(421,229)	354,632
Cash, beginning of year	654,539	299,907
Cash, end of year	$ 233,310	$ 654,539

Humpty's Restaurants International Inc.

Notes to the Financial Statements

December 31, 1998

1. Significant Accounting Policies

Measurement Uncertainty

Financial statements are based on representations that often require estimates to be made in anticipation of future transactions and events and include measurements that may, by their nature, be approximations.

Credit Risk Management

The Company is exposed to credit risk on the accounts receivable from its franchises. In order to reduce its credit risk, the Company reviews a new franchisee's credit history before extending credit and performs regular reviews of the franchise's operations. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific franchises, historical trends and other information.

The Company does not have significant exposure to any individual franchisee.

Inventory

The inventory is valued at the lower of cost and net realizable value. Cost is determined based on the first in, first out method.

Amortization

Capital assets are amortized using the declining balance method at the following rates:

Building	- 4%
Equipment	- 20%
Furniture and fixtures	- 20%
Automotive	- 35%

Leasehold improvements are amortized using the straightline method over the term of the lease.

Revenue Recognition

Revenue from franchise sales is recognized when the franchise commences operations.

Deferred Income Taxes

Income taxes are accounted for by the deferral method of income tax allocation.

2. Notes Receivable

	1998	1997
The notes receivable are unsecured and repayable in equal monthly instalments totaling $10,101. Of the total, $44,900 bears no interest, the remaining balance bears interest at 10% to 12%. The notes mature from March 1999 to April 2005.	$ 166,413	$ 149,117
Less - Current portion	74,589	76,152
	$ 91,824	$ 72,965

Humpty's Restaurants International Inc.

Notes to the Financial Statements

December 31, 1998

3. Capital Assets

	1998		1997	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	$ 505,000	$ -	$ 505,000	$ -
Building	1,356,833	345,526	1,356,833	303,536
Leasehold improvements	753,347	102,701	466,645	45,633
Equipment	452,977	205,088	362,453	142,251
Furniture and fixtures	414,918	233,621	332,770	183,153
Automotive	47,224	32,917	44,292	34,826
	$ 3,530,299	$ 919,853	$ 3,067,993	$ 709,399

4. Long - Term Debt

	1998	1997
Mortgages		
Repayable at $7,850 per month including interest at 11%, due December 2001, land and building with a carrying value of $1,516,307 has been pledged as security.	$ 658,290	$ 680,376
Requires monthly payments of interest only at 12%, a second mortgage on land and building with a carrying value of $1,516,307 has been pledged as security.	500,000	500,000
Loans Payable		
Four loans repayable at a total of $10,617 per month plus interest at rates ranging from the bank's prime lending rate plus 1.25% to 2.0%, $96,677 due May 2001, $126,404 due March 2002, with the remainder due December 2003. A general security agreement has been pledged as security.	468,881	300,085
Repayable at $1,398 per month including interest 8%, due August 2000, land and building with a carrying value of $1,516,307 has been pledged as security.	26,116	40,223
Repayable at $1,875 per month plus interest at the bank's prime lending rate plus 3%, due October 1999. A cash account with a carrying value of $45,664 has been pledged as security.	11,250	33,750
Note Payable		
Repayable at $1,000 per month, non- interest bearing, due June 1999. A note receivable with a carrying value of $6,500 has been pledged as security.	6,500	18,500

(Remainder of this note and totals contained on next page)

Humpty's Restaurants International Inc.

Notes to the Financial Statements

December 31, 1998

4. Long - Term Debt – continued from previous page

Finance Contract Repayable at $292 per month including interest at 9.75%, due August 2000, certain equipment with carrying value of $3,029 has been pledged as security.	5,314	8,129
	1,676,351	1,581,063
Less - Current portion	188,109	155,854
	$ 1,488,242	$ 1,425,209

The principal repayments required are as follows:

1999	$ 188,109
2000	167,821
2001	710,441
2002	65,780
2003	44,200
Thereafter	500,000
	$ 1,676,351

5. Share Capital

Authorized -

Unlimited number of common voting shares
Unlimited number of first preferred shares, issuable in series.
Unlimited number of second preferred shares, issuable in series.

Issued -

	1998	1997
15,044,785 common shares	$ 1,104,806	$ 1,104,806

Stock Option Plans

The following stock options were outstanding at December 31, 1998.

Number of Common Shares	Exercise Price	Expiry Date
150,000	$ 0.14	October 16, 1999
700,000	$ 0.37	July 7, 2002

6. Deferred Income Taxes

At December 31, 1998 the income tax value of the Company's capital assets exceeds their carrying value by $150,143 (1997 - $215,234). The potential income tax benefit of this item has not been recognized in these financial statements.

Humpty's Restaurants International Inc.

Notes to the Financial Statements

December 31, 1998

7. Contingencies and Commitments

a) The Company has entered into contracts with each of its franchisees that require continuing performance on the part of the Company.

b) The Company is contingently liable under head lease agreements with the landlords of many of its franchisees. The likelihood or amount of any liability under these agreements cannot be reasonably determined. Any losses will be charged to income in the year incurred.

8. Net Income Per Share

Net income per share has been calculated using the weighted average number of shares outstanding during the year.

	1998	1997
Basic	$ 0.046	$ 0.044
Fully diluted	$ 0.043	$ 0.044

9. Lease Commitments

The Company has leases for the rental of premises, automobiles, and office equipment. The minimum annual lease payments for each of the next five years are as follows:

1999	$ 282,174
2000	203,660
2001	173,379
2002	175,159
2003	57,316
	$ 891,688

10. Additional Franchise Information

	1998	1997
Number of restaurant locations in operation		
Franchises		
Beginning of year	40	37
New franchises sold	7	5
Franchises closed	-	(2)
End of year	47	40
Franchisor owned outlets	5	4
Total locations	52	44

Humpty's Restaurants International Inc.

Notes to the Financial Statements

December 31, 1998

11. Subsequent Events

Effective March 1, 1999, the Company purchased land for $1 million. In connection with this purchase, the Company has borrowed $750,000 which bears interest at 12% and matures on September 1, 1999.

The Company has a commitment to purchase land at different location for $210,000. This purchase has not closed at the date of the audit report. The financing related to this purchase has not been finalized.

The Company sold a corporate store location to a franchisee. The purchase price excluding franchise fee is $350,000. This will result in a gain on disposition of approximately $250,000.

12. Fair Value Disclosure

The fair value of all the Company's financial assets and liabilities approximate their carrying value.

13. Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

14. Comparative Financial Statements

Certain figures in the 1997 financial statements have been reclassified to be consistent with the presentation used in 1998.

Humpty's™

Corporate Information

Head Office

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Calgary, Alberta T2G 5J4
Telephone: (403) 269-4675
Facsimile: (403) 266-1973
E-mail: humpty@cadvision.com
Website: www.humptys.com

Auditors

Kenway, Mack, Slusarchuk, Stewart
Chartered Accountants
Calgary, Alberta

Legal Council

Corporate Matters:	McLeod & Company Barristers & Solicitors Calgary, Alberta
Franchise Matters:	Fleming Kambeitz Barristers & Solicitors Calgary, Alberta

Transfer Agent

Montreal Trust
Suite 600 Western Gas Tower
530 – 8th Avenue
Calgary, Alberta T2P 3S8

Corporate Banking

Royal Bank of Canada
Calgary, Alberta

Bank of Montreal
Calgary, Alberta

Stock Exchange

The Alberta Stock Exchange
Calgary, Alberta
Trading Symbol: HMP

Board of Directors

Don Koenig*	Chairman President, CEO & CFO Humpty's Restaurants Intl. Inc. Calgary, Alberta
Janice Koenig*	Vice-President Humpty's Restaurants Intl. Inc. Calgary, Alberta
Bert Messier*	President BECA International Inc. Calgary, Alberta
Carolyn Messier	Vice-President BECA International Inc. Calgary, Alberta
Albert Jakubec	Private Investor Calgary, Alberta

* Audit Committee Member

Officers and Executive Management

Don Koenig	President, CEO & CFO
Janice Koenig	Vice-President, Administration
Tom Scappatura	Corporate Controller
T.W. (Nino) Plava	Investor Relations & Finance

Annual General Meeting

Thursday, June 24th, 1999
Commencing 10:00 A.M. @
The Holiday Inn
4206 MacLeod Trail South
Calgary, Alberta

Fiscal Year End: December 31st

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